



DIVISION OF
ENFORCEMENT

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
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NEW YORK, NY 10004-2616

MEMO ENDORSED

September 9, 2022

By ECF

Hon. Kenneth M. Karas
United States District Court
United States Courthouse
300 Quarropas Street, Chambers 533
White Plains, New York 10601-4150

Re: *U.S. Securities and Exchange Commission v. Bronson et al.*,
12-CV-6421 (KMK)

Dear Judge Karas:

I write on behalf of the Securities and Exchange Commission ("SEC") to seek entry of 14 writs of garnishment to collect amounts Bronson owes the SEC and a hearing on Defendant Edward Bronson's ("Bronson") continuing contempt and certain conduct by Bronson's entities, Top Knot Inc. and/or Top Knot Inc. USA (collectively "TKI") and Bronson's attorney, Paul Rachmuth. In particular, TKI violated the Court's Liquidating Trustee Order by removing the Trustee from TKI's securities account and selling those securities. TKI continues to receive millions of dollars, which have not been turned over to the SEC. What's more, Bronson's own attorney, Rachmuth, appears to be aiding Bronson's execution of the penny stock trades from which TKI profits and depositing some funds due to TKI into his escrow account. Indeed, Bronson has paid nothing to the SEC since his incarceration.

As background, when Bronson failed to pay the SEC the Final Judgment, the SEC filed a contempt application. DE 193, 202. After finding Bronson in contempt, the Court held a contempt hearing on July 7, 2021. DE 223. In lieu of a hearing, Bronson agreed to a Court ordered payment plan and the appointment of a liquidator for a portfolio of TKI's securities. DE 272, 278. When Bronson violated the payment plan, the Court held a hearing on November 22, 2022. Among other things, the Court found that TKI was Bronson's business ("We've got to stop pretending that Top Knot isn't some shell game that's being played here. Let's stop pretending that this is not his business. Enough. No one's being fooled by this. Nobody.") DE 363. When Bronson again violated the Courts' Orders, the Court ordered Bronson incarcerated, where he remains. DE 328. Despite his incarceration, Bronson appears to be continuing to generate funds on behalf of TKI – but is still not paying the SEC. The SEC has also identified troubling conduct, including interference with the Court-ordered Liquidating Trustee that merits a hearing before the Court.

1. TKI Violated the Court's Order Appointing a Liquidating Trustee and Sold Shares Subject to the Order.

On August 17, 2021, the Court appointed Ryan Stumphauzer Liquidating Trustee for designated securities held by TKI which were to be liquidated to pay Bronson's disgorgement obligation. DE 278. The Court ordered "Top Knot and Bronson to take all reasonable efforts to cooperate with the Liquidating Trustee to facilitate his performance of all duties and obligations under this Order." *Id.* The SEC discovered, however, that in direct contravention of this Order, in a letter dated June 5, 2022 signed by "John Kellas", TKI requested that its brokerage, UMB, remove Stumphauzer as an authorized signatory on the securities account. Ex. 1. The SEC only learned of TKI's actions and obtained a copy of the letter after contacting Stumphauzer's counsel for an update on September 8, 2022.

TKI is apparently engaged in selling shares including those subject to the Court's Order Ex. 3. For example, on September 2, 2022, johnkellas54@gmail.com, wrote to Bruce Bent, Paul Rachmuth and another individual "You can not [sic] take shares of FONU and VGLS from Phase One until you have sold the entire position of FONU and VGLS¹ from Top Knot." *Id.* The individual involved in the sales, Bruce Bent, is the same individual Bronson identified as wanting to purchase TKI's portfolio and who purportedly withdrew his offer – shortly before TKI removed the Trustee's authority. DE 342, 349.

2. TKI Reaped Millions of Dollars in Penny Stock Sales.

TKI received significant funds from Bent or certain Matthews entities with whom Bent is affiliated, e.g., Matthews Southwest, Matthews Development Ltd. (Alberta), even after Bronson's incarceration. The SEC has obtained documents that show that Bruce Bent entered into agreements to pay TKI approximately \$2.1 million (once shares subject to the agreements were tradable). Ex. 4 (summary exhibit of the approximate monthly funds due to TKI based on these agreements) and Ex. 5 (reflecting millions of dollars transferred to TKI).²

TKI corresponds with Bent by email – using the Kellas email address, johnkellas54@gmail.com. Given the Court's finding that TKI was Bronson's business and the voluminous calls Bronson made from jail - over 1,423 calls lasting more than 225 hours in an approximately six month period - it is entirely possible that Bronson instructed a family member to send TKI emails on his behalf. Ex. 2 (call log excerpt).

¹ VGLS was one of the securities in TKI's UMB account subject to the Court's Order Appointing the Liquidating Trustee. DE 278.

² The SEC can produce the special purpose agreements and estimates used to create the summary exhibit at the Court's request. While it seems clear TKI received millions, it is not clear whether there is overlap between the amounts referenced in Exhibits 4 and 5 so the SEC has not provided a total.

3. Paul Rachmuth Appears to be Aiding Bronson's Transactions and Receiving Proceeds into his Escrow Account.

Bronson's attorney, Paul Rachmuth, appears to be aiding Bronson's efforts to generate funds for TKI, which are not being used to satisfy Bronson's disgorgement debt. For example, just last week Rachmuth apprised Bent of when he would receive additional shares of some securities. Ex. 6. March and August 2022 emails also show that TKI routed funds to Rachmuth's escrow account.³ Exs. 7, 8.

4. The SEC Seeks Writs of Garnishment

It appears that TKI continues to engage in transactions with Bruce Bent and certain Matthews entities that generate revenue for TKI. Exs. 3, 5. Those funds are routed to at least TKI and Rachmuth's escrow account. Ex. 7. Accordingly, the SEC seeks writs of garnishment for 14 potential sources of funds due to Bronson.

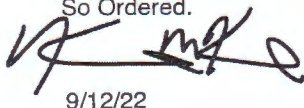
5. The SEC Seeks a Hearing to Address These Issues and Determine if There are Funds Available to Satisfy the SEC's Final Judgment.

As Bronson and TKI appear to be: continuing to violate the Court's Orders; generating millions of dollars abroad; and concealing funds that could be used to satisfy the Final Judgment, the SEC respectfully requests a hearing on these issues. The SEC further requests that John Kellas, Dawn Bronson, Paul Rachmuth, Bruce Bent, and Ryan Stumphauzer, be ordered to appear and be prepared to testify at such a hearing.

Respectfully submitted,
s/ Maureen Peyton King

Mr. Rachmuth is to respond to this letter by 9/14/22. The SEC may reply by 9/19/22. No extension. The Court will hold a conference on 9/20/22 at 3 pm.

So Ordered.



9/12/22

³ The SEC's contempt application also highlighted Bronson's practice of using Rachmuth's escrow account to conceal funds. DE 203.